Report

of the

Examination of

Concord Mutual Fire Insurance Company

Oconomowoc, WI

As of December 31, 2002

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 19, 2003

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2002, of the affairs and financial condition of:

CONCORD MUTUAL FIRE INSURANCE COMPANY
Oconomowoc, WI

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1999 as of December 31, 1998. The current examination covered the intervening time period ending December 31, 2002, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on April 1, 1875, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Concord Mutual Fire Insurance Company of the town of Concord. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance in the following counties:

Dodge	Jefferson
Walworth	Waukesha

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with premiums payable on the advance premium basis. The company also charges a $3.00 fee for premiums paid on a quarterly basis.

Business of the company is acquired through five agents, none of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
New Policy	Commissions are 20% of the first year premiums with commissions of 10% on all second year premiums and 8% on third year premiums.
Renewals	Commissions are 12% of the first year premiums with commissions of 10% on all second year premiums and 8% on third year premiums

Agents have no authority to adjust losses. All losses are adjusted by the adjusting committee, which is comprised of four members of the board of directors. Adjusters receive $15.00 per hour for each loss adjusted, plus $.31 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

The company is not audited annually by an outside public accounting firm.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting, when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Patricia Brandt	Farmer	Oconomowoc	2004
Ken Christian	Truck Farmer	Oconomowoc	2003
David Flood	Farmer	Oconomowoc	2004
Greg Fredrick	Welder	Watertown	2003
Ron Milbrath	Farmer	Sullivan	2005
Howard Webb	Farmer	Sullivan	2003
Lloyd Zastrow	Farmer	Oconomowoc	2005

Members of the board currently receive $60.00 per day for each meeting attended, $35.00 for each evening meeting attended, and $.31 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2003 Salary
David Flood	President	
Lloyd Zastrow	Vice President	
Patricia Brandt	Secretary, Treasurer and Manager	$ 18,381

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee
David Flood, Chair
Ken Christian
Ron Milbrath
Lloyd Zastrow

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2002	$65,539	328	($5,942)	$352,922	$299,094
2001	37,020	412	(41,516)	385,171	308,762
2000	54,244	305	(59,863)	409,461	351,216
1999	51,741	259	(18,798)	450,956	407,512
1998	44,887	248	(25,117)	457,583	426,112
1997	42,554	225	14,560	476,586	447,332

The ratios of gross and net premiums written to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios	
				Net	Gross
2002	$135,951	$68,518	$299,094	23%	45%
2001	131,470	40,770	308,762	13	43
2000	117,647	63,358	351,216	18	34
1999	93,420	55,118	407,512	14	22
1998	92,283	49,512	426,112	12	22
1997	78,096	41,456	447,332	9	59

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
2002	$32,363	$47,061	$65,539	49%	69%	118%
2001	45,573	50,408	37,020	123	124	247
2000	75,825	42,318	54,244	140	67	207
1999	41,603	36,163	51,741	80	66	146
1998	47,504	30,725	44,887	106	62	168
1997	15,494	24,560	42,554	36	59	95

The company has experienced a 33% drop in surplus since 1997. The company has experienced underwriting losses in all of the last five years. Other results demonstrate small increases as the company has increased policies in force by 103 policies and net premiums earned have increased in five of the last six years.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty containing several classes of cessions. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company's net risk retentions complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Company
Effective date:	January 1, 2003
Termination provisions:	January 1, 2004, or any subsequent January 1, by either party providing at least 90 days advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Casualty Quota Share Reinsurance
	Lines Reinsured:	Nonproperty
	Company's retention:	$0
	Coverage:	100% of each and every loss, including loss adjustment expense; limited to $1,000,000 per Occurrence
	Reinsurance premium:	100% of net premiums written.
	Ceding commission:	15% of net premiums written
2.	Type of contract:	Class B, First Surplus
	Lines reinsured:	Property
	Company's retention:	When the company's net retention is $150,000 or more in respect to a risk, the company may cede on a pro rata basis up to $800,000. When the company's retention is $150,000 or less in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall be obliged to accept up to 50% of such risk
	Coverage:	Reinsurer will be liable for the pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded.
	Reinsurance Premium:	The company shall pay to the reinsurer 100% of the unearned premium applicable to business covered by this exhibit as of January 1, 2003. The company agrees to pay the reinsurer the pro rata portion of all premiums, fees, and assessments charged by the company

	Ceding Commission:	15% provisional commission, adjusted for loss results and subject to a minimum of 15%, and a maximum of 35%
3.	Type of Contract:	Class C-1, Excess loss of reinsurance
	Lines Reinsured:	Property
	Company's Retention:	$15,000 per each and every risk resulting from one loss occurrence
	Coverage:	100% of each occurrence, including loss adjustment expense, in excess of $15,000 in respect to each and every risk resulting from one loss occurrence
	Reinsurance Premium:	Based on the prior four years losses incurred by the reinsurer under the contract, subject to the minimum rate of 7% of net premiums written and a maximum rate of 19% of net premium written The rate for the current annual period is 19%
4.	Type of Contract:	Class C-2, Excess of loss second layer
	Lines Reinsured:	Property
	Company's Retention:	$60,000 per each and every risk resulting from one loss occurrence
	Coverage:	100% of each loss occurrence, including loss adjustment expense, in excess of $60,000 up to a maximum of $90,000
	Reinsurance Premium:	6% of net premiums written, subject to a minimum annual premium $7,500
5.	Type of Contract:	Class D/E Stop Loss
	Lines Reinsured:	All business written, including nonproperty
	Company's Retention:	Aggregate losses, including loss adjustment expense, up to 100% of net premium written, subject to a minimum net retention of $125,000. The minimum retention does not apply in the event of the company's rehabilitation, liquidation or dissolution
	Coverage:	100% of any loss, including loss adjustment expense, if company's aggregate losses exceed 100% of net premium written
	Premium:	From 10% to 25% of net premium written based on eight-year loss experience. Deposit premium of $15,300. The rate for the current annual period is 10%.

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2002, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Concord Mutual Fire Insurance Company
Statement of Assets and Liabilities
As of December 31, 2002

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash deposited in checking account	$4,655	$	$	$4,655
Cash deposited at interest	271,306			271,306
Stocks or mutual fund investments (at market)	31,863			31,863
Premiums and agents' balances and installments:				
In course of collection	1,020			1,020
Deferred and not yet due	19,756			19,756
Investment income accrued		1330		1330
Reinsurance premium recoverable	22,992			22,922
Furniture and fixtures	461		461	
Totals	$352,053	$1,330	$461	$352,922

Concord Mutual Fire Insurance Company
Statement of Assets and Liabilities (cont.)
As of December 31, 2002

Liabilities and Surplus

Net unpaid losses	$ 3,000
Unpaid loss adjustment expenses	100
Commissions payable	2,063
Fire department dues payable	97
Unearned premiums	46,680
Nonexpense related: Premiums received in advance	1,888
Total Liabilities	$53,828
Policyholders' surplus	299,094
Total Liabilities and Surplus	$ 352,922

Concord Mutual Fire Insurance Company
Statement of Operations
For the Year 2002

Net premiums and assessments earned		$65,539
Deduct:		
Net losses incurred	$26,535	
Net loss adjustment expenses incurred	5,827	
Other underwriting expenses incurred	47,061	
Total losses and expenses incurred		79,423
Net underwriting gain (loss)		(13,884)
Net investment income earned		6,035
Other income:		
Miscellaneous		1,907
Net income (loss) before policyholder dividends and before federal income taxes		(5,942)
Net income (loss) before federal income taxes		(5,942)
Federal income taxes incurred		0
Net Income (Loss)		($5, 942)

Concord Mutual Fire Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2002

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2002	2001	2000	1999	1998
Surplus, beginning of year	$308,762	$351,216	$407,512	$426,112	$447,332
Net income	(5,942)	(41,516)	(59,863)	(18,798)	(25,117)
Net unrealized capital gains or (losses)	(3,879)	(1,091)	3,414	(14)	3,897
Change in non-admitted assets	153	153	153	212	
Surplus, end of year	$299,094	$308,762	$351,216	$407,512	$426,112

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2002 is accepted.

Reclassification Account	Debit	Credit
Unearned Premium	$3,776	
Advance Premium		$3,766
Total	$3,776	$3,776

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Disaster Recovery Plan—It is recommended that the company develop a disaster recovery plan.

   Action—Compliance.

2. Net Unpaid Losses-It is recommended that the company establish proper loss reserves and record those estimates in the loss register.

   Action—Compliance.

3. Net Unpaid Losses-It is recommended that the company report separately case reserves and its estimate for IBNR for each line of business when completing schedule J-1 of the annual statement.

   Action—Compliance.

4. Net Unpaid Losses –It is recommended that the company obtain signed proofs of loss from all claimants, or establish and comply with a threshold for which signed proofs of loss will be required.

   Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate person. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Directors' and Officers' Liability	$1 Million per claim and in the aggregate
Agent Errors and Omissions	$1 Million per claim and in the aggregate
Fidelity bond	$35,000 for each officer
Workers Compensation:	$100,000 per claim $500,000 in the aggregate

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing. The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2002.

EDP Environment

The company does not use computers to process its data.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors, or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutuals allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$358,828
2.	Liabilities plus 33% of gross premiums written	104,145
3.	Liabilities plus 50% of net premiums written	93,087
4.	Amount required (greater of 1, 2, or 3)	358,828

5.	Amount of Type 1 investments as of 12/31/2002	275,961
6.	Excess or (deficiency)	($ 82,867)

Even though the company does not have sufficient Type 1 investments to be able to invest in Type 2 investments, it is in compliance with the investment administrative rule, because it does not own Type 2 investments other than the Wisconsin Reinsurance Corporation preferred stock. The practical effect of this position precludes the company from purchasing Type 2 investments until the deficiency no longer exists.

ASSETS

Cash and Invested Cash **$275,961**

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 0
Cash deposited in banks-checking accounts	4,655
Cash deposited in banks at interest	271,306
Total	$275,961

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depositor and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of fifty six deposits in eight depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2002 totaled $13,508 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.78% to 7%. Accrued interest on cash deposits totaled $1,330 at year-end.

Stocks and Mutual Fund Investments **$31,863**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2002. Stocks owned by the company are located in the company's bank lock box.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Agents' Balances or Uncollected Premiums **$1,020**

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Premium Deferred and Not Yet Due **$19,756**

The above ledger asset represents premium that is deferred and not yet due. A review of individual agents' accounts verified the accuracy of this asset.

Investment Income Due and Accrued **$1,330**

Interest due and accrued on the various assets of the company as of December 31, 2002, consists of the following:

Cash Deposited at Interest	$1,330
Total	$1,330

Reinsurance Premium Recoverable **$22,992**

The above asset represents recoveries due the company from reinsurance on losses which were paid on or prior to December 31, 2002. A review of year-end accountings with the reinsurer verified the above asset.

Equipment, Furniture, and Supplies **$461**

This asset consists of $461 of office equipment owned by the company as of December 31, 2002. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$3,000**

This liability represents losses incurred on or prior to December 31, 2002, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$3,250	$ 0	$3,250
Less: Reinsurance recoverable on unpaid losses	250	0	250
Net Unpaid Losses	$3,000	$0	$3,000

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2002. To the actual paid loss figures was added an estimated amount for those 2002 and prior losses remaining unpaid at the examination date, if any. The one open claim at year end was closed without payment. There were no subsequent 2002 claims made in 2003. Surplus was not adjusted as the previously stated difference of $3,000 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$100**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2002, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is an estimate using a percentage of losses based on historical data.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Unearned Premiums **$44,792**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. The company's accountant included the advance premiums in unearned premium, so an adjustment was made decreasing unearned premium and increasing premium received in advance.

Fire Department Dues Payable **$97**

This liability represents the fire department dues payable at December 31, 2002. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Commissions Payable **$2,063**

This liability represents the commissions due and payable to company agents as of December 31, 2002. Supporting commission registers and subsequent cash disbursement records were reviewed to verify the above amount.

Premiums Received in Advance **$3,776**

This liability represents premiums that were received in advance of the due date as of year end. The company's accountant included the advance premiums in unearned premium so an adjustment was made by the examination decreasing "Unearned Premium" and increasing

"Premium Received in Advance." Supporting records and cash receipts verified this item. It is recommended that, in the future, the company's "Advance Premium" portions be separated and be reported under line 12, Non-expense related liabilities instead of "Unearned Premium."

V. CONCLUSION

Concord Mutual Fire Insurance Company is a town mutual insurer covering a four county area. The company has been in business since 1875 providing property and liability insurance to its policyholders.

The current examination resulted in one new recommendation. The company was found to be in compliance with all prior examination recommendations. Due to a reporting error, an adjustment was made resulting in a $3,776 increase to Premiums Received in Advance, and a corresponding decrease in Unearned Premium. This adjustment had no impact on the company's surplus.

In the five years since the prior examination, the number of policies in force increased by 32% to 328 policies, whereas, gross and net premium written both increased by 49% and 38%, respectively to $135,951 and $68,518, respectively.

The company experienced a decrease in surplus during the period since the prior examination of approximately 30% from $426,112 to $299,094. The company had a net loss in each year under examination. Although, the company's surplus has declined during the period under examination the company, has an adequate level of surplus at year-end 2002 relative to its premium. If this trend in surplus continues the company will eventually fall below the minimum surplus requirement of $200,000, which would require an assessment of policyholders or other corrective action.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Premium Received in Advance- It is recommended that, in the future, the company's "Advanced Premium" portion be separated and reported under line 12, Non-expense related liabilities instead of "Unearned Premium."

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Russell Lamb of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Don Gasser
Examiner-in-Charge